

**TESTIMONY
OF
JOSEPH S. SPREMULLI
before the
RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**FOR AN
ABBREVIATED RATE FILING**

**for
PROVIDENCE WATER**

June 2002

PROVIDENCE WATER SUPPLY BOARD

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1 **Q. Please state your full name and title?**

2
3 A. Joseph S. Spremulli, Director of Support Services for the Providence Water
4 Supply Board (Providence Water).
5

6 **Q. How long have you been employed by Providence Water?**

7
8 A. I have been employed by Providence Water since January, 1991.
9

10 **Q. Would you please state your background, education, and professional**
11 **associations?**
12

13 A. I originally came to Providence Water to oversee the purchasing department
14 back in 1991. Prior to coming to Providence Water, I held the position of
15 Supervisor in charge of Purchasing for the City of Providence. I began at
16 Providence Water as Supervisor of Purchasing and was promoted to Manager of
17 Purchasing, Acting Director of Support Services in October, 1996 and was
18 promoted to Director in April of 1998. I hold a degree in Business Administration.
19 I have been purchasing insurance for Providence Water since early 1991. I am
20 currently a member of Rhode Island Water Works Association, New England
21 Water Works Association, and the American Water Works Association.
22

23 **Q. Please explain your duties and responsibilities.**

24
25 A. As Director of Support Services, I am responsible for the development,
26 management and monitoring of the following:
27

28 Facilities Management, which includes building maintenance, inventory control,
29 vehicle and equipment management, and underground storage tank compliance.
30

31 Procurement, which includes purchasing, competitive bidding specifications
32 and awards, and vendor negotiations.
33

34 Intergovernmental Relations, which includes legislative support, internal
35 communications, and records management.
36

37 Security and Risk Management, which includes facility systems and equipment

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1 maintenance, insurance, transfer of risk, and safety.

2
3 **Q. What is the purpose of your testimony?**

4
5 A. Pursuant to the Report and Order in Docket 3163, "Providence Water
6 agrees in its next rate filing to submit a study of the recommended level
7 of insurance premiums and injuries and damages expense to be included in
8 rates." In accordance with this commitment, we have had a study conducted by
9 the firm of Starkweather & Shepley. A copy of their study is included in the
10 Appendix to this filing.

11
12 **Q. Please explain Providence Water's review of its insurance programs.**

13
14 A. In September of 2000, Providence Water hired the firm of Starkweather &
15 Shepley to perform the following:

- 16
17 A) Identify loss exposures of Providence Water.
18 B) Review our current insurance program and determine if adequate. Make
19 necessary recommendations for change.
20 C) Review current Workers' Compensation open claims and determine proper
21 reserve.
22 D) Assist Providence Water in preparing specifications for new insurance
23 coverages. Review and analyze new insurance programs when
24 implemented.
25 E) Estimate future insurance costs.

26
27 The above study was performed by Ronald P. Joseph, CPCU, the Vice President of
28 Starkweather & Shepley. Overall Mr. Joseph found the Providence Water insurance
29 program adequate. He did identify some areas of concern and made
30 recommendations. Since this report, Providence Water has rebid our insurance
31 coverages adding many of his recommendations into the specifications.

32
33 Claims Strategies, a division of Starkweather & Shepley, calculated the necessary
34 reserve for our open outstanding Workers' Compensation claims. This reserve was set
35 at \$645,000.

36
37 In May of 2002, Starkweather & Shepley reviewed our current insurance policies to

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1 identify any discrepancies between our request and the actual policies.

2
3 Overall his findings are acceptable. The original report and the final review are
4 enclosed.

5
6 **Q.) Have you calculated the amount that Providence Water needs in rates for**
7 **insurance premiums and injuries and damages?**

8
9 A. Yes.

10 Enclosed is a detail spreadsheet breaking down Providence Water's insurance
11 costs. These costs cover this year, next year and the following year.

	Current 7/01-6/02	Next Year 7/02-6/03 (Estimated)	Third Year 7/03-6/04 (Estimated)
17 Property & Casualty	\$370,312	\$413,143	\$475,114
19 Workers' Compensation	\$197,000	\$260,000	\$340,000
21 Liability & Property Claims	\$300,000	\$300,000	\$300,000
24 Other Expenses			
25 WSASC - TPA (old Claims) \$5000			
26 Dept. of Labor & Training \$15,000			
27 Safety Training & Eq. <u>\$30,000</u>			
28	\$50,000	\$50,000	\$50,000
30 Total Annual Expenses	\$917,312	\$1,023,143	\$1,165,114
32 Reserve Old Open W/C Claim			
33 Lifetime Reserve	\$645,000	-----	-----
35 Total Budget	\$1,562,312		

36
37 Actual insurance costs vs. future costs are between \$1 million and \$1.2 million dollars.

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1 **Q. How much of an Insurance reserve should Providence Water have on**
2 **hand?**

3
4 A. A total reserve of \$1,000,000 has been calculated. A reserve of \$645,000 for the
5 four open Workers' Compensation claims and an additional \$355,000 for third
6 party claims and deductibles. This amount is currently in the insurance fund and
7 should remain.
8

9 **Q. What does Providence Water propose to do with the accumulated funds in**
10 **the restricted Insurance fund?**

11
12 A. As of December 31, 2002, the fund had \$2,837,159 minus the worker's
13 compensation reserve of \$645,000, and an additional reserve of \$355,000, the
14 balance is \$1,837,159. Estimated annual insurance costs average
15 approximately \$1,039,000 minus \$359,000 currently going into the fund leaving
16 an annual short fall of \$679, 000. This amount will reduce the accumulated
17 balance of \$1,837,159 in approximately 2.7 years. Therefore, we propose to
18 keep the funding at \$359,000 per year as the balance is drawn down.
19 Otherwise, we would be reducing funding now and increasing it dramatically in a
20 few years.
21

22 **Q. Is there anything else to be considered?**

23
24 A. Because of September 11, the insurance industry has become extremely
25 volatile, and it is very difficult to project future costs. Please note that these
26 projected costs are our best guess and may not be accurate. It is recommended
27 that the funding level for insurance remain as is, until the insurance industry
28 becomes stable and costs more predictable. Providence Water will continue to
29 monitor these costs and make future recommendations when necessary.
30

31 **Q. Does this conclude your testimony?**

32
33 A. Yes.